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SUBJECT: FLYING IN STYLE: FRENCH STARTUP ELYSAIR EYES
TRANSATLANTIC BUSINESS CLASS MARKET

¶1. (SBU) Summary: French start-up Elysair inaugurated flights on its Paris-New York route January 3 using its all business-class "L,Avion" brand. Touting fares that are 50% lower than Air France business-class and the convenience of using nearby airports at Orly and Newark, Elysair hopes to grab 10% of the lucrative business class market between Paris and New York in the next year. U.S. carriers who were forced to move operations from Orly to Charles de Gaulle airport a number of years ago, and who are now faced with a rival seeking to use Orly as a competitive advantage, may protest.

¶2. (U) Originally conceived in 2002, Elysair has spent the past five years developing the financing and business plan to offer "premium service at an attractive price," extending the low-cost model to high-margin business class travel. With 25 million euros in financing drawn primarily from private investors such as the Rothschild holding company Compagnie Financiere Saint Honore, and experienced management headed by Marc Rochet, former CEO of French airlines Air Liberte and Air Outre-Mer, the new concept will receive a serious test of its viability.

¶3. (U) By offering round-trip tickets at average price of around 1600 Euros, Elysair looks to undercut current business class fares by as much as 50% and to break even after 18 months of operation. Operating one Boeing 757-200 aircraft leased from Lufthansa in a 90 seat configuration, the company will initially offer service five times per week, and plans to expand to six flights per week by Spring. Elysair will take possession of a second Boeing 757-200 in June. If the model proves successful, the company plans to extend it to other markets in the U.S., Russia, and Middle-East.

¶4. (SBU) Comment: With five well-entrenched and deep-pocketed competitors, Elysair is likely to face stiff competition for the premium-class customer on the Paris-New York route. We will be interested in particular in how US carriers react. A number of them were forced from slots at Orly airport to more distant Charles de Gaulle airport some years ago, only to find Orly's proximity now being used as a marketing hook by a start-up competitor. Although we have yet to see any overt signs of dissatisfaction, they cannot be pleased with this outcome,
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